

# STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

This Chapter describes items in the Budget that are statewide issues or related to various departments.

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## TRANSFORMING STATE GOVERNMENT

The COVID-19 pandemic has disrupted state government operations, forcing the state to find creative ways to adapt and deliver core functions. It has also created an opportunity to rethink the way the state delivers services to its nearly 40 million residents. Investments in technology have already advanced the ability of government to deliver services during the current pandemic, and the state is committed to building on this progress to make California an example of what government should look like in the 21st century.

Transforming state government will include lessons learned from the state's real time experiment with a statewide telework program. The state's response has shown that teleworking on a large scale is possible, and the ability to optimize a telework approach can reduce the state's carbon footprint and leased office space, while increasing the state's digital presence for the benefit of both California's employees and the people they serve.

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## **GOVERNMENT EFFICIENCY**

The Administration, coordinated by the Government Operations Agency, will work with agencies and departments to examine their workforce to determine classifications and/or positions that can telework without disruption to serving the citizens of California. Increased telework could reduce statewide absenteeism, increase employee retention, promote inclusion, and move the state toward being an “employer of choice.” Telework is also environmentally favorable, as it reduces vehicle miles traveled and improves air quality.

The COVID-19 pandemic challenged the state to reexamine in-person processes to protect state employees and the public. For example, the Department of Motor Vehicles (DMV) temporarily closed its field offices, but encouraged the public to use its alternative service channels such as online, mail, and kiosks, and a new Service Advisor on DMV’s website. Additionally, DMV launched its Virtual Field Office to create new digital options for transactions with DMV staff that previously required an in-person office visit. As a result, a substantial majority of all DMV transactions can now be processed without a field office visit. The state will build on DMV’s successful pilot program and look to implement similar digital-based services in other agencies or departments that provide a direct service to the public.

In an effort to transform the way the state conducts business and serves Californians, the Administration will use the Office of Digital Innovation to assist agencies and departments to rethink how to meet the public’s needs, including by delivering more government services online. The state will build on the lessons learned through establishing the COVID19.ca.gov website to build a new CA.gov website. The new site will be user-centered to allow Californians simple, easily understood transactions and to access all state information at a single portal.

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## **WORKSPACE INNOVATIONS**

With an increased remote workforce, the Administration, led by the Department of General Services (DGS), will evaluate the state’s real estate portfolio to determine which agencies and departments may be able to reduce lease space. Agencies and departments may be able to reconfigure their workspace to include additional meeting rooms and hoteling space, thereby reducing their lease footprint. Reducing space will decrease not only lease costs, but also energy costs. Additionally, DGS will look for possible restacking opportunities in state-owned buildings.

Absent additional federal funds, the COVID-19 Recession makes reductions necessary to balance the state budget. The May Revision includes several budget solutions that reduce costs, such as pausing building renovations and reducing proposed relocation costs.

- State Office Building Projects, Sacramento Region—Withdrawal of \$721.7 million Public Buildings Construction Fund for the design-build phase of three office building renovation projects in the Sacramento Region: Gregory Bateson (\$183.6 million), Jesse Unruh (\$116.8 million), and Natural Resources (\$421.3 million). These projects will be paused until a statewide evaluation of office space needs has been completed.
- Health and Human Services Relocation to the Clifford L. Allenby Building—A decrease of \$4.1 million General Fund to reduce the level of resources associated with the relocation of the Department of Developmental Services, the Department of State Hospitals, and the California Health and Human Services Agency to the new Clifford L. Allenby Building.
- Natural Resources Agency New Facility Relocation—A decrease of \$4.8 million General Fund associated with a reduction of a Governor’s Budget proposal to relocate staff from the Natural Resources Agency into the New Natural Resources Headquarters Building.

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## **ADDITIONAL EFFICIENCY AND COST SAVING MEASURES**

In addition to the efficiencies described above, the May Revision proposes a 5-percent reduction to nearly all state department budgets beginning in 2021-22.

- Reduce Travel
  - Reduce statewide travel costs by using video conferencing for meetings or trainings, where possible.
  - Reduce state fuel and insurance costs by assessing use of telematics (a mini GPS device that tracks distance, time, location, and speed) in state vehicles.
- Improve State Processes
  - Improve processes and quality of services from the customer’s point of view by encouraging agencies and departments to attend the Department of Human Resources’ Lean Academy.

- Establish performance-based oversight of regulatory programs to better measure, track, and allocate limited resources based on predetermined program performance measures.
- Other Cost Saving Opportunities
  - Reevaluate the state fleet and vehicle home storage permits.
  - Identify opportunities for efficiency in technology contracts.

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## EMPLOYEE COMPENSATION

Absent additional federal funds, the COVID-19 Recession requires reductions necessary to balance the state budget. These reductions will be triggered off if the federal government provides sufficient funding to restore them. Savings in employee compensation will need to be part of the budget solution absent federal funds.

Collective bargaining negotiations will commence or continue with all of the state's bargaining units to reduce pay by approximately 10 percent, relative to June 2020 pay levels. The May Revision assumes these savings will begin with the July 2020 pay period. The state will make every attempt to reach these savings through collective bargaining. However, the Administration will include a budget provision to impose reductions if the state cannot reach an agreement. The May Revision assumes savings of an additional \$2.8 billion (\$1.4 billion General Fund).

The May Revision prioritizes maintaining \$604 million ongoing (\$261 million General Fund) in salary increases for the state's lowest paid workers in Chapter 4, Statutes of 2016 (SB 3), and the \$260 per month payments to improve affordability and access to healthcare. The May Revision also maintains funding for all 2021 calendar year increases in health care premiums and enrollment for active state employees, and retiree health care prefunding for active employees.

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## STATE RETIREMENT CONTRIBUTIONS

The state faces unfunded pension obligations of \$167 billion, which will continue to increase in the foreseeable future as the state's retirement systems absorb the impact of the current recession. While the state has made great strides in paying down those liabilities to ensure the long-term security of the state's retirement benefits, the current budget problem requires a judicious approach.

Proposals necessary to balance the state budget include:

- CalPERS State Annual Pension Contribution Payment Offset—Chapter 33, Statutes of 2019 (SB 90) authorized a \$3 billion General Fund supplemental pension payment toward the California Public Employees' Retirement System (CalPERS) state plans' unfunded liabilities with the goal of maximizing the state's savings over the next three decades. Of the \$3 billion, \$2.5 billion was paid to CalPERS in 2019. CalPERS applied approximately \$100 million of the \$2.5 billion to produce savings in the 2019-20 employer contributions. The May Revision proposes to redirect the remaining \$2.4 billion over the next two years to pay the state's obligations that will produce more immediate savings to the state and results in a reduction in the state's retirement contribution.
- Redirect Remaining \$500 million General Fund Supplemental Pension Payment—The May Revision proposes statutory changes to eliminate the remaining \$500 million General Fund supplemental pension payment to CalPERS as authorized under SB 90. SB 90 was subsequently amended by Chapter 859, Statutes of 2019 (AB 118) to specify that of the \$500 million payment to CalPERS, \$243 million would be applied to the California Highway Patrol (CHP) retirement plan. The Governor's Budget proposed to accelerate the payment in 2019-20; however, current fiscal challenges warrant the elimination of these discretionary payments so the funds can be directed toward offsetting General Fund costs to maintain core programs. AB 118 also authorized multiple payments of \$25 million annually beginning in 2019-20 through 2022-23 from the Motor Vehicle Account (MVA) toward the CHP plan. The 2019-20 payment from the MVA is scheduled to be paid as planned. However, the May Revision proposes to suspend the remaining \$25 million annual MVA payments through 2022-23, along with the elimination of the \$243 million General Fund supplemental pension payment to CHP. The May Revision expects to achieve this through collective bargaining with the association.
- Suspension of California State Teachers' Retirement Systems (CalSTRS) Annual Rate Increases—Given the COVID-19 Recession, the May Revision proposes statutory changes that will suspend the annual rate increases authorized by the Teachers' Retirement Board at the 2019-20 level until 2023-24. The Administration will instead continue to make supplemental payments from the Proposition 2 required debt payments. This proposal will provide \$1.8 billion General Fund savings over the multiyear to the state's annual contribution to the CalSTRS defined benefit program.

The State Retirement and Health Care Contributions figure provides an historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), JRS II, and the Legislators' Retirement System (LRS) for pension and health care benefits.

**State Retirement and Health Care Contributions** <sup>1/ 2/ 4/</sup>

(Dollars in Millions)

	CalPERS <sup>4/</sup>	CSU CalPERS	CalSTRS	JRS	JRS II	LRS <sup>5/</sup>	Active Health & Dental <sup>6/</sup>	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding <sup>7/</sup>
2011-12	\$3,174		\$1,259	\$195	\$58		\$2,439	\$1,505		0
2012-13	2,948 <sup>8/</sup>	\$449 <sup>8/</sup>	1,303	160	51		2,567	1,365 <sup>8/</sup>	\$222 <sup>8/</sup>	0
2013-14	3,269	474	1,360	188	52	\$1	2,697	1,383	225	22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 <sup>10/</sup>
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	84	1	3,255	1,759	313	394
2019-20	5,946	716	3,323	263	87	1	3,443	1,892	331	562
2020-21 <sup>3/ 9/</sup>	6,259	733	3,597	225	85	1	3,713	2,068	362	703

<sup>1/</sup> The chart does not include contributions for University of California pension or retiree health care costs.

<sup>2/</sup> The chart does not reflect the \$6 billion supplemental pension payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), Chapter 33, Statutes of 2019 (SB 90), and Chapter 859, Statutes of 2019 (AB 118), authorized multiple one-time supplemental pension payments to CalPERS and CalSTRS, which are also not reflected in the chart. The impact of the adjustments to the SB 90 and AB 118 supplemental pension payments, as proposed by the May Revision to the Governor's Budget, are also not reflected in the chart.

<sup>3/</sup> The chart does not reflect the suspension of the Teachers' Retirement Board's statutory authority to increase the state contribution rate for fiscal years 2020-21 through 2023-24, as proposed by the May Revision.

<sup>4/</sup> In addition to the Executive Branch, this includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in this column reflect statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

<sup>5/</sup> The state continues to make employer contributions to the Legislators' Retirement System. CalPERS reported the estimated 2020-21 contribution amount is \$84,308.

<sup>6/</sup> These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and the California State University (CSU).

<sup>7/</sup> Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

<sup>8/</sup> Beginning in 2012-13, CSU pension and health care costs are displayed separately.

<sup>9/</sup> Estimated as of the 2020-21 May Revision. Of the total estimated 2020-21 contributions, contributions sourced from the General Fund are estimated to be \$4,015 million for CalPERS, \$733 million for CSU CalPERS, \$1,744 million for Active Health and Dental, and \$335 million for OPEB Prefunding. Fiscal year 2020-21 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are all General Fund costs.

<sup>10/</sup> Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

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## CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

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### FAIRGROUNDS

The Network of California Fairs, consisting of 77 fairgrounds throughout California, have historically supported their own operations through revenue-generating activities with limited supplemental state support. A total of 53 of the 77 fairgrounds are state-affiliated fairs and have state civil service employees. As a result of the COVID-19 pandemic, fairs are canceling revenue-generating activities and are projected to lose approximately \$98 million in revenue between March and June 2020, and revenue loss is expected to continue.

Many fairs have little to no reserves and must initiate the layoff process immediately as they may become insolvent. The May Revision includes \$40.3 million General Fund in 2019-20 to support state-affiliated fairs that are projected to have insufficient reserves to pay legally mandated costs that may be incurred during the state civil service layoff process, including staff salary, payout of leave balances, and unemployment insurance.

The Administration will work with fairs, local governments, and partners toward alternative options due to the lack of General Fund subsidies available in this budget. The Administration plans to engage the Legislature and stakeholders over the course of the next year to develop a thoughtful approach to transition the state's relationship with fairs, while acknowledging the need to continue supporting property that may be necessary for emergency operations.

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### PROPOSITION 12

On November 6, 2018, California voters approved Proposition 12, which expanded current animal housing requirements and established new, more stringent minimum space standards on housing for calves raised for veal, breeding pigs and egg-laying hens. The measure also makes it illegal for businesses in California to knowingly sell eggs or uncooked pork or veal that came from animals housed in a manner that does not meet the new confinement requirements, including products from animals raised and maintained at facilities located in California and out-of-state. The Department is finalizing statutorily mandated regulations to establish comprehensive program requirements.

The May Revision proposes \$1.4 million and 6 positions in 2020-21, and \$2.8 million and 15 positions ongoing to support full implementation of Proposition 12, and also includes statutory changes to establish new fee authority that will support associated program costs. This proposal will be funded for two years by a short-term loan from within the Food and Agriculture Fund until this new fee revenue can support all program costs.

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### **OTHER SIGNIFICANT ADJUSTMENTS**

The state is not in a fiscal position to expand programs given the drastic budget impacts of the COVID-19 Recession. The following proposals are withdrawn from the Governor's Budget:

- State Water Efficiency and Enhancement Program Grants—\$20 million General Fund
- Cal Expo Fiscal Support and Assessment—\$2.25 million General Fund

Absent additional federal funds, the COVID-19 Recession makes the following reduction necessary to balance the state budget. The reduction will be triggered off if the federal government provides sufficient funding to restore it:

- California Biodiversity Initiative Baseline Reduction—A decrease of \$3.9 million General Fund ongoing beginning in 2020-21.

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## **CALIFORNIA PUBLIC UTILITIES COMMISSION**

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### **BROADBAND EXPANSION**

The COVID-19 pandemic requires significant numbers of Californians to telework, learn via distance education, and receive healthcare through telehealth. The drive toward these technology platforms highlights the state's inequities in access to computers, technology tools, and connectivity. In response, the California Public Utilities Commission (Commission) took action in April to help bridge this digital divide by making \$25 million available from the California Teleconnect Fund for hotspots and Internet service for student households, prioritizing rural, small, and medium-sized school districts. The Commission also made \$5 million available from the California Advanced Services Fund Adoption Account to help cover the cost of computing and hotspot devices. The Commission coordinated with the California Department of Education and

this funding will be prioritized toward low-income communities and communities with high percentages of residents with limited English proficiency.

To identify which areas of the state lack sufficient access to broadband, the May Revision includes \$2.8 million and 3 positions in additional resources from the Public Utilities Commission Utilities Reimbursement Account for the Commission to enhance its broadband mapping activities. This additional information will better inform the state's broadband infrastructure grant program, improve safety by providing broadband speed data at emergency response locations such as fairgrounds, and enhance the state's ability to compete for federal broadband funding.

The May Revision proposes statute intended to increase the ability of the state to compete for federal funding to improve access to broadband Internet in California.

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## **WILDFIRE MITIGATION EFFORTS**

Chapter 81, Statutes of 2019 (AB 111), added \$50.1 million in 2019-20 for the Commission to review and enforce utility wildfire mitigation plans and implement Chapter 79, Statutes of 2019 (AB 1054). These bills were enacted to facilitate consumer access to safe, reliable, and affordable power by providing a durable solution to the problems arising from utility-caused wildfires. The bills established a new Wildfire Safety Division, created procedures and standards applicable to catastrophic wildfire proceedings, codified the prudent manager standard for wildfire liability, and established a Wildfire Fund and mechanisms to capitalize the fund to protect ratepayers.

The May Revision continues to build on the Commission's emergency response and preparedness efforts and includes an additional 11 positions for the Commission to further improve its Wildfire Mitigation Plan guidelines and performance metrics.

Overall, the Governor's Budget and May Revision together contain 106 new positions and \$30 million for the Commission to address issues related to utility-caused wildfires.

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## **DEPARTMENT OF MOTOR VEHICLES**

In response to the COVID-19 pandemic, the DMV temporarily closed its field offices to protect both its employees and the public.

DMV took several immediate actions to accommodate the needs of the public. All driver licenses that expire between March 1 and May 31, 2020, have been extended,

and temporary paper extensions have been made available for seniors. The validity of expiring commercial driver licenses, endorsements, and certificates has been extended through June 30, 2020. In-person renewals have also been waived for eligible driver license and identification cardholders with expirations in March, April, and May 2020.

During its temporary closure, DMV began procuring personal protective equipment for its staff and developing plans to promote appropriate physical distancing within its offices for an eventual public reopening. DMV began a limited reopening of 25 field offices and 10 industry business centers on May 8 to honor existing appointments and serve customers whose unique transactions cannot be completed through one of DMV's multiple alternative service channels.

During this closure the DMV has continued to encourage the public to utilize its alternative service channels such as online, mail, and kiosks, and customers can use the Service Advisor on DMV's website to learn about service options. Additionally, DMV also quickly launched its DMV Virtual Field Office to create new digital options for transactions with DMV staff that previously required an in-person office visit. As a result, a substantial majority of all DMV transactions can now be processed without a field office visit.

The federal deadline by which a federally compliant driver license or identification will be required to board domestic flights or enter secure federal facilities has been extended until October 2021. DMV continues to be funded to provide REAL IDs by this deadline. As offices reopen, DMV will be able to address these and other transactional needs in field offices.

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## CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

The California Department of Veterans Affairs (CalVet) works to serve the nearly 1.6 million veterans and their families living in California. CalVet strives to ensure that veterans of every era and their families receive state and federal benefits and services they have earned as a result of honorable military service. CalVet operates eight homes throughout the state that provide residential and medical care services to aged or disabled California veterans who served on active duty.

To reduce costs, the May Revision also proposes the following fund shift:

- Southern California Veterans Cemetery—A transfer of \$24.5 million from the Southern California Veterans Cemetery Master Development Fund to the General Fund. The

May Revision also includes a withdrawal of the Governor's Budget proposal to allocate \$700,000 from the Fund to conduct a study of various sites in the Irvine area for the future development of a Veterans Cemetery in Southern California.

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## **ELECTRONIC HEALTHCARE RECORD SYSTEM**

The May Revision includes one-time funding of \$1.2 million General Fund to begin implementation a new information technology project for a single electronic healthcare record system to replace multiple legacy systems. The system will streamline data entry and will provide a centralized repository for the health records to modernize CalVet's medical record keeping.

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## **MASTER PLAN**

In January 2020, CalVet released its statutorily required Master Plan for the overall operation of the veterans homes. The Master Plan discusses veteran population trends in California, the potential location of future facilities and alternate service delivery models, and includes several recommendations, some of which are reflected in the May Revision as follows:

- **Closure of the Barstow Veterans Home**—The Barstow Home was identified in the Master Plan as not meeting most criteria for an ideal veterans home, including proximity to veterans populations, proximity to the federal Veterans Administration healthcare system, availability of health care service providers, presence of a local nursing program, and availability of a sizable local health care workforce. In light of statewide fiscal challenges, the May Revision proposes to initiate the closure of the home. Barstow Home funding for 2020-21 now reflects a \$400,000 General Fund reduction to operating costs, and a projected \$3 million reduction in associated revenue. Long-term General Fund savings from closing the home are expected to be \$14 million annually.
- **Realigning Levels of Care**—The Governor's Budget proposed realigning the levels of care at the Yountville, Chula Vista, and Barstow Homes. The proposal has been modified in the May Revision to reflect the Barstow closure, and a one-year delay for realignment at Chula Vista and Yountville. The May Revision includes a \$2.6 million net General Fund savings in 2020-21 as a result of these changes.
- **Mental Health Services for Veterans**—The May Revision includes \$1.1 million General Fund in 2020-21 and \$2.1 million ongoing to improve behavioral health services at

the veterans homes by standardizing mental health support staffing. This reflects a six-month delay in the implementation of this Governor's Budget proposal, resulting in a decrease of \$1.1 million General Fund in 2020-21.

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## CALIFORNIA CONSUMER FINANCIAL PROTECTION

The May Revision sustains the Governor's Budget proposal for \$10.2 million Financial Protection Fund and 44 positions in 2020-21, growing to \$19.3 million and 90 positions ongoing in 2022-23, to revamp the Department of Business Oversight (DBO) as the Department of Financial Protection and Innovation, and empower the Department to provide consumers greater protection from predatory practices while facilitating innovation and ensuring a level playing field for all companies operating responsibly in California.

This proposal, known as the California Consumer Financial Protection Law, seeks to cement California's consumer protection leadership amidst a consumer-protection retreat by federal agencies, including the Consumer Financial Protection Bureau. The fragmented oversight of financial services has left consumers vulnerable to abuse. These problems are further exacerbated in times of crisis, including the ongoing COVID-19 pandemic.

The goals of this proposal are to:

- Protect consumers from predatory businesses, without imposing undue burdens on honest and fair operators.
- Restore financial protections that have been paralyzed at the federal level.
- Spur—not stifle—innovation in financial services by improving regulatory communication and anticipating emerging products and services. Extend state oversight to important financial-services providers not currently subject to state supervision, such as debt collectors.
- Increase public outreach and education, especially for vulnerable populations.
- Expand fact-based decision-making through studies on consumer behaviors and market impacts of financial products and services.
- Provide more effective services to consumers by increasing responses to consumer complaints and integrating consumer needs and experiences into oversight and enforcement. This proposal will not affect entities licensed through a different

department or agency, provided the entity is acting within the scope of their license.

The Department expects that initial start-up costs for the first three years of the new program will be covered by using the available settlement proceeds in the State Corporations and Financial Institutions Funds (which will become the new Financial Protection Fund), cost recovery on examinations, and potential new settlements; future costs are expected to be covered by fees on the newly covered industries.

The May Revision includes budget bill language that makes the funding and positions contingent upon the Legislature passing the necessary statutory language to implement the new program. This approach is intended to continue the discussion on the proposal's statutory language into the summer to give the Legislature more time to evaluate the proposal.

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## **RESPONSIBLE BEVERAGE SERVICE TRAINING ACT DELAY**

The Department of Alcoholic Beverage Control (ABC) licenses and regulates persons and businesses engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in the State of California. The Department's mission is to administer the provisions of the Alcoholic Beverage Control Act in a manner that fosters and protects the health, safety, welfare, and economic well-being of the people of California.

The Governor's Budget included \$3.1 million Alcohol Beverage Control Fund to provide the capacity and resources to implement the Responsible Beverage Service Training Act, established in Chapter 847, Statutes of 2017 (AB 1221), and to provide electronic payment services. These resources will introduce new online functionality for electronic payments, enable online applications for new licenses and renewals, electronic notification of application status or renewal notices, and provide a database of certificates of alcohol servers in compliance with AB 1221.

AB 1221 requires that alcohol servers receive training on responsible beverage service within 60 days of their employment date, beginning July 1, 2021. This change in law creates a new statewide mandate for licensees and a new training requirement for as many as one million alcohol servers.

The May Revision includes statutory language to delay the July 1, 2021 alcohol server training requirement to July 1, 2022, to provide relief to licensees through the delayed

collection of responsible beverage service-associated training fees. The licensees, who are expected to cover the costs for servers to participate in the training, are being severely impacted by the downturn in the economy. ABC will continue developing the Responsible Beverage Service training system, and the online payment services and licensing application systems as part of their business modernization efforts. Licensees will benefit from these improved services as these projects move forward in 2020-21.

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## CANNABIS

The Governor's Budget announced the Administration's intent to consolidate the cannabis-regulatory functions in the Departments of Consumer Affairs, Food and Agriculture, and Public Health into a single Department of Cannabis Control, and stated more details would be submitted to the Legislature in the spring.

The Administration was in the process of developing a more detailed plan, including establishing workgroups tasked with building a foundation and infrastructure for the transition. However, this process was interrupted by the COVID-19 pandemic, requiring a delay in the consolidation as planned. Instead of initiating this change through the May Revision, the Administration will release details of a proposed consolidation in the 2021-22 Governor's Budget.

In light of the delayed cannabis consolidation effort, the May Revision includes special fund proposals from each of the licensing entities to address expiring limited-term funding and positions. These proposals include \$68.2 million for the Department of Consumer Affairs, Bureau of Cannabis Control, \$20.8 million for the Department of Public Health, and \$54.8 million for the Department of Food and Agriculture to continue cannabis licensing and enforcement activities, as well as make improvements to enforcement including, but not limited to, proposed statutory changes to shift sworn investigators from the Department of Consumer Affairs' Division of Investigations to its Bureau of Cannabis Control.

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## UPDATED ALLOCATION OF THE CANNABIS TAX FUND

Proposition 64 specified the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis and the past effects of its criminalization. Once these priorities have been met, the remaining funds are allocated to youth education, prevention,

early intervention, and treatment; environmental protection; and public safety-related activities. The Budget estimates \$296.9 million will be available for these purposes in 2020-21, and the structure of these allocations is unchanged from 2019-20:

- Youth education, prevention, and early intervention and treatment and school retention—60 percent (\$178.1 million)
- Environmental protection—20 percent (\$59.4 million)
- Public safety-related activities—20 percent (\$59.4 million)

These figures reflect a total reduction of \$35.9 million compared to the Governor's Budget estimate due to lower than expected tax receipts as result of the COVID-19 pandemic.

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## CANNABIS TAX REFORM

The Governor's Budget proposed to simplify tax administration for cannabis by changing the point of collection of cannabis taxes. The changes would have moved the responsibility for the cultivation excise tax from the final distributor to the first, and for the retail excise tax from the distributor to the retailer. The Administration remains committed to simplifying and improving cannabis tax administration and will work with stakeholders on a proposal for inclusion in the budget next year.

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## CALIFORNIA VOLUNTEERS

As the State Service Commission for California, California Volunteers manages programs and initiatives aimed at increasing the number of Californians engaged in service and volunteering. This includes the lead role for Emergency Support Function – 17 (ESF-17), in which California Volunteers is responsible for volunteer and donation management during the COVID-19 pandemic response and recovery. The state's response to the COVID-19 pandemic has highlighted the need to build-up and support these activities. The May Revision provides \$2.9 million ongoing General Fund for administrative and strategic planning staff, including emergency volunteer coordinators located in the three most populated regions of the state. This infrastructure builds the state's capacity to respond to the COVID-19 pandemic, as well as future emergencies, by increasing opportunities for Californians to serve their communities in a time of need.

The May Revision also provides \$10.1 million ongoing General Fund to sustain nearly 500 AmeriCorps volunteer positions that were established with funding from the 2019 Budget Act. AmeriCorps volunteers serve statewide in programs that address critical community needs in education, public safety, health and human services, and the environment. AmeriCorps members also are participating in COVID-19 response and recovery by volunteering in food banks, assisting with meal deliveries to seniors, and meeting a variety of other COVID-19 related community needs as they arise. While the AmeriCorps program provides valuable services to communities at any time, it is particularly important now that organizations supported by volunteers, such as schools, local governments and nonprofit organizations, are facing increased fiscal constraints. The program also presents an opportunity for Californians laid off due to the COVID-19 pandemic to gain valuable work experience while earning a stipend and a grant for higher education.

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### **SECRETARY OF STATE**

The CARES Act included \$400 million in new Help America Vote Act funds, made available to states to prevent, prepare for, and respond to the COVID-19 pandemic for the 2020 federal election cycle. This funding is intended to provide states with additional resources to protect the 2020 elections from the effects of COVID-19. California has received \$36.3 million, which is available for expenditure through December 31, 2020. Among other things, the funding can be used to increase California's ability to vote-by-mail, expand early voting and online registration, and improve the safety of voting in-person by providing additional voting facilities, more polling place workers, and personal protective equipment.

Executive Order N-64-20, issued on May 8, 2020, requires each county elections official to send vote-by-mail ballots for the November 3, 2020 General Election to all registered voters so that Californians can exercise their right to vote in a safe and accessible manner. The Administration will continue to work with the Legislature and the Secretary of State to determine how requirements for in-person voting opportunities and other details of the November election will be implemented, while preserving public health and giving county elections officials needed flexibility.

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## DEPARTMENT OF CONSUMER AFFAIRS

The May Revision proposes statutory changes to increase fees for the following boards and bureaus to provide sufficient funding for operational costs. The need for fee increases is generally due to cost growth over the last few years.

- Acupuncture Board
- Board of Behavioral Sciences
- Bureau of Private Postsecondary Education
- Medical Board of California
- Podiatric Medical Board

The state is not in a fiscal position to increase rates or expand programs given the drastic budget impacts of the COVID-19 Recession. The following proposals are withdrawn or modified from the Governor's Budget:

- Board and Bureau Workload—A decrease of \$1.4 million various special funds to phase in or remove certain resources proposed in the Governor's Budget.
- Organizational Change Management Process Improvement—A decrease to fund only currently filled positions at this time.
- Increased Workload Related to Health Care Practitioners and Unprofessional Conduct, Medical Board and Investigation and Enforcement Unit proposals (SB 425)—Various decreases to phase-in resources requested in the Governor's Budget.

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## CALIFORNIA HORSE RACING BOARD

In response to Governor Gavin Newsom's direction to implement additional safety measures and reviews at Santa Anita Park, a review panel was formed to examine the horses' past performance, review their medical history, and perform physical examinations at Santa Anita. The Governor's Budget included \$1.3 million Horse Racing Fund and 12 positions in 2020-21 and ongoing to implement enhanced safety procedures at tracks across the state.

However, given the economic uncertainty and the currently unknown changes facing the future operations of horse racing tracks, the May Revision is modifying the original proposal by phasing in the positions over a four-year period of time, providing an initial savings of \$1,169,000 and \$444,000 ongoing. This modification is informed by the knowledge and experience gained over the initial implementation of the safety panel over the past 10 months, which identified opportunities for improvements, as well as a more strategic and methodical approach to extend the practice to all racing statewide.

This revised proposal provides for immediate fiscal relief for the racing industry while still providing the needed resources to continue the existing safety review panel and extend it to all racing statewide. In addition, this proposal will provide the needed resources to effectively implement the necropsy review program without creating a backlog in other enforcement and administrative action investigation cases.

Additionally, the May Revision includes an increase of \$1.3 million special fund to support growing contract costs related to more stringent testing equipment requirements, changes in the methodology and scope of equine drug testing at the Kenneth L. Maddy Laboratory at the University of California, Davis, and employee compensation costs.

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## OTHER SIGNIFICANT ADJUSTMENTS

To reduce costs, the May Revision also proposes the following efficiency and fund shift:

- Department of General Services, Capitol Annex Projects—A transfer of \$754.2 million from the State Project Infrastructure Fund to the General Fund. These funds were previously earmarked for the design and construction of a series of projects necessary for the renovation or reconstruction of the Capitol Annex. Funding remains available for pre-construction activities for the projects, and the costs associated with the design and construction phases will be shifted to lease-revenue bond financing.

Absent additional federal funds, the COVID-19 Recession makes the following reductions necessary to balance the state budget. These reductions will be triggered off if the federal government provides sufficient funding to restore them:

- California Arts Council—Withdrawal of a one-time increase of \$10.5 million General Fund in 2020-21.

- California Military Department, California Cadet Corps—Reversal of the 2018-19 expansion of the California Cadet Corps for a decrease of \$6.3 million General Fund in 2020-21 and \$8 million General Fund in 2021-22.
- Precision Medicine Program—Reversion of \$18.1 million in previously appropriated funds that have yet to be allocated. The 2016, 2017, and 2018 Budget Acts included a total of \$50 million for this program and \$30 million remains unallocated. This adjustment allows the Office of Planning and Research to retain \$2.1 million to administer previously allocated research grants as well as \$9.8 million for research related to Adverse Childhood Events.

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## STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2020-21 limit is estimated to be \$115.9 billion. The revised limit is the result of applying the growth factor of 3.62 percent to the prior year limit. The revised 2020-21 limit is \$695 million below the \$116.6 billion estimated in January. This decrease is primarily due to changes in the following factors:

- Per Capita Personal Income
  - January Percentage Growth: 4.08%
  - May Revision Percentage Growth: 3.73%
- State Civilian Population
  - January Percentage Growth: 0.44%
  - May Revision Percentage Growth: 0.21%
- K-14 Average Daily Attendance
  - January Percentage Growth: -0.33%
  - May Revision Percentage Growth: -0.67%